ABSTRACT

This research aims to compare and analyze on the cost efficiency level of Islamic Commercial Bank (ICB) and Islamic Windows (IW) in Indonesia. Another purpose is to find out whether the Islamic Banks are ready to face the application of ASEAN Economic Community (AEC) based on the result of efficiency analysis. This research is conducted on eleven samples in total, which consist of seven ICB and four IW.

This research employs Stochastic Frontier Analysis (SFA) with cost function to measure the efficiency. Asset approach is selected as the approach to determine the input and output variables. The input variables used in this research are cost of profit/loss sharing and cost of labor, whereas the output variables selected are total financing channeled by Islamic banks in the sample and securities owned by them. Analysis of Variance (ANOVA) is employed to find out the difference between the efficiency level of ICB and IW.

The result of analysis by SFA shows that in average Indonesian Islamic Banks has achieved the efficiency level at 0.652188318 or 65.22% within the year of 2011 to 2014. It indicates that the Islamic banks in Indonesia have not yet achieved the cost efficiency in generating outputs using inputs available. In other words, Indonesian Islamic banks have to improve the performance in order to increase competitive advantage to face the application of AEC. Another finding reveals that Islamic Commercial Banks tend to be more efficient compared to Islamic Windows. Based on the result of regression on panel data to test the effect of input and output variables on total cost, the variables that have positive and significant impact on total cost are total financing, cost of profit/loss sharing, and cost of labor. Meanwhile owned securities have negative insignificant effect on total cost. The ANOVA result reveals that there is no significant difference between the efficiency level of Islamic Commercial Banks and Islamic Windows.

Keyword: Efficiency, SFA, Islamic Commercial Bank, Islamic Windows.